

Date: January 4, 2013

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Mark Ahrendsen, Department of Transportation
Harmon Crutchfield—Department of Transportation

Subject: Parking Lease Agreement for Parking in the Corcoran Street Garage between the City of Durham and 21c Durham LLC.

Executive Summary

The City has negotiated a Parking Lease Agreement with 21c Durham LLC for 50 spaces in the Corcoran Street Garage. The long term success of 21c's hotel project in downtown Durham will be supported by providing 21c long-term assigned access to parking for hotel guests and users. The Parking Lease Agreement is an important key to 21c's ability to finance the project. A lender is awaiting confirmation of an agreement with the City of Durham in order to allow 21c to proceed with development activities.

Recommendation

The City of Durham's Department of Transportation in conjunction with the Office of Economic and Workforce Development recommends that the City Council:

1. Finds that the leased parking spaces will not be needed for use by the city for the term of the parking lease agreement; and,
2. Authorizes the City Manager to execute a parking lease agreement with 21c Durham LLC for 9 years and 9 months beginning as early as July 1, 2014, but no later than July 1, 2015.

The rental rate for the leased parking spaces will be at the reserved rate per space in effect at commencement date. Current reserved rate per space is \$70.00 per month during the hours of 8:00 am – 7:00 pm.

Background

In August 2012, the city entered into a development agreement with 21c to provide performance based incentives in the amount of \$5,723,537.00 to redevelop the Hill Building in downtown Durham ("City Incentive Agreement"). The project is a 125 room luxury boutique hotel that would contain an art museum and restaurant within the Hill Building in downtown Durham. This project would develop a unique luxury hotel in the heart of downtown by

revitalizing an iconic downtown building while providing much needed hotel rooms to support the Convention Center.

The benefits of the new hotel are as follows.

- Approximately \$33.6 million in capital investment
- 125 hotel rooms
- A museum space that is open to the public, free and that would also function as a private event space.
- A restaurant and bar
- 150+ new permanent jobs
- New construction jobs
- Unique luxury hotel in the heart of downtown
- Revitalization of an iconic downtown building
- Attract new visitors to City
- New cultural center and contemporary art museum
- Garner significant, positive press for City
- Generate new local taxes

The hotel will be located at the former Hill Building which is in the Parrish Street District of Downtown. The City Center and Parrish Street are both priorities for development in downtown Durham. The Parking Lease Agreement is an important key to 21c's ability to finance the project. The authorization of the Parking Lease Agreement, with a term of 9 years and 9 months, is required by 21c's lender in order to close on the property and allow 21c to proceed with development activities.

Issues/Analysis

The 50 spaces are needed to support hotel operations in parking their guests and visitors using a valet service. Currently, 21c's lender is unwilling to fund the acquisition of the building without confirmation of a parking lease agreement. The term of the lease is for 9 years and 9 months. The commencement date of the lease is linked to the date of completion of the hotel, but shall not commence before July 1, 2014 or after July 1, 2015. This time period corresponds to the targeted completion period of the hotel contemplated by the City's Incentive Agreement.

The Corcoran Street Garage is the most viable option for the hotel's parking needs due to its proximity to the hotel.

All revenues received from the lease agreement will guarantee monthly revenue to the parking fund for 50 parking spaces for the duration of the lease.

Based on the benefits from this development the City of Durham should support the execution of this long term Parking Lease Agreement. The loss of this key development would be costly to the tax base for downtown Durham.

In authorizing this long term lease of City property, the N.C. General Statutes require that the City Council determine that the leased spaces will not be needed for use by the City during the term of the lease. Since the subject parking spaces are intended for use by the general public and not the City, the City will not require the use of the spaces during the term of the Parking Lease Agreement. Also consistent with State law requirements, the City has given public notice of the City Council's intent to authorize this lease 10 days prior to the council meeting. The notice identified the location of the lease, length of time of the lease and rental payment terms.

Alternatives

The City Council may decide to not approve the lease agreement with 21c. A decision not to approve may result in the loss of funding for the new hotel development in the Hill Building.

Financial Impact

Under the terms of the lease agreement, 21c will pay a minimum of \$70 per month (subject to City rate increases) to lease 50 spaces for 9 years and 9 months. This equals to a minimum of \$409,500 in revenue to the City over the life of the contract.

SDBE Summary

No specific SDBE provisions are required.